

# THE SIGNIFICANCE OF THE GERMAN ELECTIONS

by

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ON September 14 Germany will hold its sixth general election since the foundation of the Republic. The failure of the moderate political parties, and therefore of the Reichstag, to agree on a program which would bring order out of the financial chaos in the Reich has led to a serious crisis in parliamentary government. The Fascist and Communist extremists, both of which are expected to show gains in the coming elections, are violently opposed to the Republic and to the parliamentary form of government. The significance of the elections, therefore, lies in the fact that the very future of parliamentary government in Germany may be at stake.

Since the revolution in 1918, the necessity of presenting a united front on the major problems of foreign policy has forced the moderate parties to cooperate despite serious differences of opinion on domestic questions. With the coming into force of the Young plan and the final evacuation of the Rhineland, however, the centripetal pressure of foreign affairs was removed and at once the centrifugal force of domestic politics made itself felt. The government was unable to put its very necessary financial measures through the Reichstag and was finally forced to dissolve that deadlocked body and call new elections.

The serious economic depression and the steadily growing number of unemployed has increased the dissatisfaction with a Reichstag which has not only failed to solve these problems but has failed to legislate. Some feel that the parliamentary system has proved its inability to cope with the situation. The staunchly liberal *Frankfurter Zeitung*, in a recent editorial, declared that "The petty warfare of the political parties,

the over-emphasis on party tactics and the pursuit of egotistical party interests have reached such proportions that the system forbids real democracy and has encouraged the miserable performance with Article 48. No party is free from sins against the parliamentary spirit."<sup>1</sup>

Furthermore, many of the younger generation in Germany have lost confidence in their elders. These young men and women, as children, suffered intensely from privations during the war, the blockade, and the inflation. Now, owing to the economic depression, many of them are unable to find work. The result is complete disillusionment and a growing tendency to extremist agitation in favor of either a Communist dictatorship of the proletariat or of Fascist anti-Semitism, anti-capitalism, and their concomitants as a means of righting wrongs which they feel they are in no way responsible for causing. They blame their plight on the "slave treaties"—Versailles, St. Germain, the Young plan—and as a consequence hold the older leaders of the older political parties responsible.

The elections will therefore show whether the moderate parties in the Reich, including the Social Democrats, can unite sufficiently to protect themselves against the menace of the extremists. During the last months of the dissolved Reichstag, the moderate parties appeared hopelessly divided. Now there are signs, however, that many people in Germany realize the danger. As yet no formal agreement between the moderates appears to have been reached; probably none will be made. But there appear to be a realigning of forces and a tendency to work together which have hitherto been lacking.

<sup>1</sup> *Frankfurter Zeitung*, July 24, 1930. For text of Article 48, cf. p. 251, n.

This report surveys briefly the financial and political factors which led to the dissolution of the Reichstag. These include the budgetary deficit, the financial relations be-

tween the Reich and the states comprising it, and the unemployment insurance difficulties, as well as the split in the Nationalist party and the positions of the other groups.

### GERMAN POLITICAL PARTIES

The outstanding feature of German political life is the multiplicity of parties in the Reich. Since the birth of the Republic there have never been less than a dozen political groups represented in the Parliament.

The last general elections in Germany were held on May 20, 1928 and resulted in a distinct swing to the Left. The mandates of the parties in the Reichstag are shown in the following table:<sup>1a</sup>

#### REICHSTAG ELECTIONS, MAY 20, 1928

Parties (Arranged from Right to Left)	Number of Seats
National Socialist ( <i>Nationalsozialistische Deutsche Arbeiterpartei</i> ) .....	12
National People's ( <i>Deutschnationale Volkspartei</i> ) .....	78
Christian-National Peasants ( <i>Christlich-Nationale Bauern</i> ) .....	9
German Peasants' ( <i>Deutsche Bauern</i> ) .....	8
Hanoverian .....	4
People's Rights ( <i>Revalorization-Volksrechtspartei</i> ) .....	2
People's ( <i>Deutsche Volkspartei</i> ) .....	45
Economic ( <i>Reichspartei des Deutschen Mittelstandes</i> ) .....	23
Bavarian People's ( <i>Bayerische Volkspartei</i> ) .....	17
Catholic Center ( <i>Zentrum</i> ) .....	61
Democratic .....	25
Social Democratic ( <i>Sozialdemokratische Partei Deutschlands</i> ) .....	153
Communist .....	54
Total .....	491

The political parties may be grouped roughly under two headings: the extremists and the moderates. In the first category are the National Socialists and the rump of the German National People's party, on the extreme Right, and the Communists on the extreme Left. These extremists of the Right and the Left, although at opposite poles in the Reichstag, are united in their opposition to the present system of government.

The Communist party belongs to the Third (Moscow) International and is committed to world social revolution and the establishment of a dictatorship of the proletariat.

The National Socialists, sometimes called the German Fascists, are led by Adolf Hitler. They have a largely negative program, which is anti-Republican, anti-Parliament, anti-Young plan, anti-Locarno, anti-League, anti-Semitic, anti-capitalist. The party advocates the overthrow of the Republic and

the establishment of an extreme dictatorship with certain socialistic features. It adheres to the old Pan-German ideal of a pure German national State comprising all Germans everywhere.

The Hugenberg German National People's party (the so-called Nationalist party) has much in common with the Hitlerites. The party is monarchist and, as its name implies, intensely nationalist, condemning the Stresemann foreign policy and all that it stands for.

How far the Hugenberg followers will co-operate with the Hitlerites probably depends to a large extent upon the stress which the

1a. Compiled from M. Müller-Jabusch, *Politischer Almanach*, 1925, Berlin and Leipzig, Verlag H. F. Koehler, 1925, p. 6 and 7; Müller-Jabusch, *Handbuch des Öffentlichen Lebens*, 1929, p. 3. The system of proportional representation obtains in Germany, 60,000 votes being necessary to elect a Reichstag candidate. In order to be effective in the Reichstag, each party must have a minimum of 15 members which forms a so-called *Fraktion*, or parliamentary group. Membership in Reichstag committees is possible only for members of a *Fraktion*.

National Socialist leaders put upon the "socialistic" aspects of their program.

The moderate parties may be said to comprise the following major groups: the People's Conservative party or Tory Democrats, the People's party, the Economic party, the Bavarian People's party, the Catholic Center party, the Democrats or Constitutional party and the Social Democrats. All but the last are strictly bourgeois parties. All, without exception, now support the Republic and parliamentary government. All now support, though perhaps with varying degrees of warmth, the foreign policy synonymous with the name of Stresemann. On matters of domestic policy, however, the divergence of opinion in this large group is very great.

The Tory Democrats are a new party, formed from the Left wing of the old National People's party which refused longer to follow the leadership of Dr. Hugenberg.<sup>2</sup> The most important leaders in this new group are Captain Treviranus, an ex-marine officer and a close friend of President von Hindenburg's, Dr. Martin Schiele, a leader in agricultural circles, and Count Kuno von Westarp, the former leader of the National People's party. All are frank conservatives and their aim appears to be the formation of a party which shall be a fitting successor to the old Conservative party of the Empire. The group has a strong agricultural program.

The People's party, founded and led for many years by the late Dr. Stresemann, is the party of the industrialists. More and more, especially since Dr. Stresemann's death, this party has tended to stress the importance of aid to industry and has become more conservative in its outlook.

The Catholic Center party and its offspring, the Bavarian People's party, are in truth the center parties of the Reich. Held together by their common religion, these parties are practically the only ones in Germany whose membership represents a cross-

section of all classes and interests in German life. The Center's policy is therefore a moderate one, tending now to the Left and now to the Right. At present, under the leadership of Chancellor Brüning, it is becoming more conservative. Nevertheless, the Center party has been, and probably will continue to be, the pivot on which most German governments have been formed since the revolution.

The Democratic party, after several years of decline, has now been reorganized and emerges in the present election campaign under the name of the Constitutional party (*Staatspartei*). The old party was the heir of pre-war German liberalism. The new party aims to revive and put new life into these traditions. Its leaders include many important men: among others, the present Finance Minister, Dr. Dietrich; the former Minister of Justice, Erich Koch-Weser; and the Hamburg banker and reparation expert, Dr. Melchior. The new party has also won the support of the leaders of the Young German Order (*Jungdeutscher Orden*) and is making a special effort to appeal to the moderate youth of Germany. The *Jungdeutscher Orden* is an organization which has attracted a large number of high-principled young people and, although until now it has had little or no political influence, it enjoys a certain amount of respect.<sup>2a</sup> The Constitutional party stands on the Weimar Constitution, honors the Republic and advocates financial reform, election reform, support of agriculture and the reorganization of the Reich to eliminate obsolete state frontiers and prerogatives. In foreign policy it advocates a strong but conciliatory program. It is neither socialistic nor conservative and therein hopes to find its strength.

Finally, among the moderate groups there is the Social Democratic party, the largest party in the Reich. This group resembles the British Labour party. It has loyally cooperated in the government and, while primarily devoted to furthering the interests of the workers, may in no sense be classed as a radical party.

2. The members of the National People's party are generally referred to as the Nationalists.

2a. Cf. *Manchester Guardian Weekly*, August 1, 1930, p. 90.

### POLITICAL SURVEY, 1928-1930

During the period of two years and two months which elapsed between the election and the dissolution of the last Reichstag, there have been two German Cabinets. The first, known as the Grand Coalition, held office from June 28, 1928 until March 27, 1930 and included all the parties from the Social Democrats up to and including the People's party. Under the Chancellorship of Hermann Müller, a Social Democrat, the Grand Coalition Ministry was composed as follows:

#### THE MUELLER CABINET

Chancellor: Hermann Müller, Social Democrat.  
 Foreign Affairs: Gustav Stresemann (until his death, October 3, 1929), People's party.  
 Julius Curtius, People's party.  
 Interior: Carl Severing, Social Democrat.  
 Finance: Rudolf Hilferding, Social Democrat (until December 12, 1929). Paul Moldenhauer, People's party.  
 Commerce: Julius Curtius, People's party (until November 10, 1929). Paul Moldenhauer, People's party (until December 23, 1929).  
 Justice: Erich Koch-Weser, Democrat (until April 4, 1929). Theodor von Guérard, Center party.  
 Defense: Wilhelm Groener, no party.  
 Labor: Rudolf Wissel, Social Democrat.  
 Communications: Theodor von Guérard, Center party (until February 6, 1929). Adam Stegerwald, Center party (from April 13, 1929).  
 Post and Telegraph: Georg Schätzel, Bavarian People's party.  
 Occupied Areas: Theodor von Guérard, Center party (until February 6, 1929). Joseph Wirth, Center party (from April 13, 1929).  
 Agriculture: Hermann Dietrich, Democrat.

Thus the Müller government, as at first constituted, contained four Social Democrats, including the Chancellor, two members of the People's party, including Dr. Stresemann, two Democrats, one Catholic Centrist and one member of the Bavarian People's party. The Cabinet was essentially a "Ministry of Personalities," created primarily for the purpose of carrying through a foreign policy which both President von Hindenburg and Dr. Stresemann regarded as more important than domestic political

issues. When the Müller government presented its program to the Reichstag on July 5, 1928, it was approved with only the Nationalists, Fascists and Communists voting in the opposition. The most important item of the program related to the speedy evacuation of the second (Coblenz) zone of the Rhineland, which Chancellor Müller urged, saying that "if evacuation is delayed . . . a most significant opportunity will have been neglected for translating the policy of reconciliation into acts." He declared further that "peaceful understanding without thought of revenge for past humiliation and suffering" was the basis of German foreign policy.

The Müller Grand Coalition Ministry was responsible for the negotiations which resulted in the Young plan settlement and in the evacuation of the Rhineland, although it had resigned before the last zone had been finally evacuated.<sup>3</sup> The credit for freeing Germany from foreign control thus belongs to the Social Democrats, the Democrats, the Center, the Bavarian People's party and the People's party, for it was these middle groups which over a period of more than six years consistently supported Dr. Stresemann's policy of fulfillment against the attacks of the Nationalists, the Fascists and the Communists.

The Müller government was in office for almost two years and went through several serious crises which would doubtless have caused its fall had the exigencies of foreign politics not made it imperative that the Reich refrain at the time from indulging either in long-drawn-out negotiations for a new government or in a general election. With the Reichstag as constituted after the 1928 election, only two coalitions were possible:

3. The evacuation of the second zone of the Rhineland did not take place until the last months of 1929, and the third and last zone was not finally evacuated until June 30, 1930.

The status of the Saar, however, remains unsettled. Negotiations which had been proceeding spasmodically since November 1929 between the French and Germans as to the conditions upon which the Saar should be returned to the Reich before the date specified in the Versailles Treaty (1935) and without the plebiscite which that instrument provides were adjourned early in July 1930, presumably until autumn. In the meantime the inter-Allied force of 800 men which policed the Saar railways has been reduced to some 250 instead of being withdrawn entirely with the other foreign troops on June 30, 1930, as sought by Germany. The function of this police force had been to maintain a liaison with the other troops in the Rhineland.



either the Grand Coalition or a conservative-bourgeois ministry excluding the Social Democrats and relying either on the latter's benevolent neutrality or on the Nationalists to put through legislation. The Grand Coalition resigned a fortnight after putting the Young plan through the Reichstag; the conservative-bourgeois ministry had been in office only three and a half months before the Reichstag was dissolved.

#### MUELLER'S FALL

The Müller government resigned on March 27, 1930 on the domestic issue of unemployment insurance. It had been faced with an increasingly difficult financial and economic situation which was complicated by the world economic depression, and the consequent bad industrial and agricultural conditions in Germany. Many observers believe, however, that the Müller government actually resigned because the Social Democrats no longer wished to remain in office. The Social Democrats are said to have felt that after almost two years in the government, they could further their own cause better by joining the opposition and allowing the other parties the responsibility of putting through the necessary financial reforms and new taxation measures which were sure to be generally unpopular. It is said also that political pressure on the Socialists from the Right parties in the coalition made further cooperation impossible.

#### THE BRUENING MINISTRY

The Brüning Ministry, which took office on March 30, 1930, was a minority government, composed of the following members:

Chancellor: Heinrich Brüning, Center party.  
Vice-Chancellor: Hermann Dietrich, Democrat.  
Foreign Affairs: Julius Curtius, People's party.  
Interior: Joseph Wirth, Center party.  
Finance: Paul Moldenhauer, People's party (until June 20, 1930). Hermann Dietrich, Democrat (from June 26, 1930).  
Commerce: Hermann Dietrich, Democrat (until June 26, 1930).  
Justice: Johann Brecht, Economic party.  
Defense: Wilhelm Groener, no party.  
Labor: Adam Stegerwald, Center party.

Communications: Theodor von Guérard, Center party.

Post and Telegraph: Georg Schätzel, Bavarian People's party.

Agriculture: Martin Schiele, Nationalist.

Occupied Areas: Gottfried Treviranus, Tory Democrat.

Thus the Brüning Cabinet took office as a "conservative-bourgeois" group, with the Social Democrats, the largest single party in the Reichstag, in the opposition, and dependent on a group of dissatisfied Nationalists to eke out the minority votes on which it must rely. Its position was extremely precarious, the tasks with which it was faced were of first magnitude and, as the following weeks showed, the Nationalists proved a weak reed.

The Brüning Ministry was accorded a vote of confidence by the Reichstag on April 3, 1930, but only after the Chancellor, with the authorization of President von Hindenburg, had threatened as a last resort to dissolve the Parliament and conduct the government under Article 48 of the Constitution.<sup>4</sup>

The threat to utilize Article 48 was made good in less than four months. After a long struggle between the parties, a compromise here in return for another there, political log-rolling and bargaining back and forth, the government was defeated on its financial program on July 16. The political complexion of the Brüning Ministry was too conservative to make possible concessions to the Socialists which would have won the lat-

4. The text of Article 48 is as follows:

"If a state fails to carry out the duties imposed upon it by the national constitution or national laws, the President of the Reich may compel performance with the aid of armed force.

"If public safety and order be seriously disturbed or threatened within the German Reich, the President of the Reich may take the necessary measures to restore public safety and order; if necessary, with the aid of armed force. For this purpose he may temporarily suspend in whole or in part the fundamental rights enumerated in Articles 114, 115, 117, 118, 123, 124 and 153.

"The President of the Reich must immediately communicate to the Reichstag all measures taken by virtue of Paragraph 1 or Paragraph 2 of this Article. On demand of the Reichstag these measures must be abrogated.

"If there be danger in delay, the state ministry may, for its own territory, take such temporary measures as are indicated in Paragraph 2. On demand by the President of the Reich or by the Reichstag such measures shall be abrogated.

"Detailed regulations shall be prescribed by a national law." McBain and Rogers, *The New Constitutions of Europe*, New York, Doubleday, Page, 1922 p. 185-86. The other articles of the Constitution enumerated in paragraph 2 above concern various rights of individuals, the press, assembly, etc. Article 48 was invoked on many occasions during the first years of the Republic, usually when there was actual physical danger to the State.

ter's last minute support or neutrality and saved defeat. On the other hand, the Nationalists who had repudiated the leadership of Dr. Hugenberg were not numerous enough to give the government a majority. Defeated by a margin of 52 adverse votes—the ballots of Social Democrats, Communists, Nationalists and Fascists—Chancellor Brüning, with President von Hindenburg's backing, at once announced that the government would carry out its financial program under Article 48 of the Constitution. Decrees were actually proclaimed on the night of July 16.<sup>5</sup> On July 18 the Reichstag demanded their abrogation under Paragraph 3 of Article 48, on a motion of the Social Democrats which was passed by a narrow margin of 15 votes. The government had the alternative of re-

signing and postponing indefinitely financial reform, or dissolving the Reichstag and putting through its program by decree. Chancellor Brüning, again with the backing of President von Hindenburg, chose the latter course.

The Reichstag was dissolved July 18, and elections were called for September 14. The Brüning government promptly put into effect a new set of financial decrees which will remain in force until the new Reichstag takes action on them when it convenes about the middle of October. These decrees are summarized in a later section of this report.<sup>6</sup> Thus there is a breathing space of almost three months during which the Brüning government is attempting to bring some order out of the financial tangle.

## PROBLEMS OF THE BRUENING CABINET

The most important task confronting the German government is financial reform. The Brüning Cabinet had tried to find some program to which a majority of the Reichstag could and would adhere for covering the ever-growing financial deficit which had been accumulating under previous governments. The Social Democrats had whole-heartedly supported the conciliatory foreign policy of Dr. Stresemann but their influence in the government had led to an increase in social legislation, particularly in the field of unemployment insurance. The other parties represented in the Müller Cabinet, although more conservative than the Socialists, seemed unwilling to break up the coalition, and it was finally the Socialists who forced the issue. But on the other hand, the bourgeois parties had not been willing to vote the tax schedules necessitated by the legislation demanded by the Socialists. With the formation of the bourgeois Brüning government, dependent as it was for its small majority on the votes of the dissatisfied agrarian wing of the Nationalist party, which hoped for expensive farm relief in return for its support, the situation became even more acute. In spite of the mounting deficit, political bargaining prevented legislation.

5. *Frankfurter Zeitung*, July 17, 1930.

### THE UNBALANCED BUDGET

In his final report, Mr. S. Parker Gilbert, the Agent General for Reparation Payments, emphatically stressed the point that the budgetary deficit was incurred during a period when the German revenues had shown a phenomenal increase. Thus the deficit must be attributed to the ever-growing expenditures which have resulted from the unwillingness of every political party to oppose these expenditures or to support the taxation which they necessitated. Mr. Gilbert describes the situation in the following words:<sup>7</sup>

"Revenues have been ample, and, notwithstanding the important reductions in taxation that were made in the earlier years, have risen to an estimated total of 10,061 millions [reichsmarks] in 1929-30, as compared with 7,757 millions in 1924-25 and 8,961 millions in 1927-28. These revenues would have been adequate to meet all legitimate requirements of the Reich, and even to provide a reasonable margin of safety, if only a firm financial policy had been pursued. For the past four years, however, the Government has always spent more than it received and at times, especially during 1929-30, it has made commitments to spend even more

6. Cf. p. 258.

7. *Report of the Agent General for Reparation Payments*, May 21, 1930, p. 97 et seq.; also p. 94-95 for further statement in regard to revenues.

than it could borrow . . . The first condition of return to a sound position is an absolute determination to hold public expenditures within the limits of available revenues, and, in addition, to leave a sufficient margin of safety . . . What is most needed is a firm resolve on the part of the Government to live within its income. This is a simple programme which can be readily and effectively applied, but it requires a real exercise of will on the part of the Government itself and an abandonment of the easy theory of the 'inevitability' of public expenditures."

A strong Ministry, supported by a stable majority in the Reichstag, with a mandate to rectify the situation, could unquestionably have "readily and effectively applied" this "simple programme." But the Brüning government was a minority Cabinet. Its predecessor in office, although commanding a working majority in the Reichstag, had been broken by its failure to solve the financial difficulties.

In spite of greatly increased revenues for the three years 1926-1927, 1927-1928, and 1928-1929 taken together, the aggregate expenditures in the Reich in this period exceeded revenues by a total of 2,445 million reichsmarks (\$611,250,000). Of this deficit, 1,237 million reichsmarks (\$309,250,000) fell in the year 1928-1929. These deficits completely exhausted the small surplus that had remained over from the years 1924-1925 and 1925-1926, as well as a special working fund of 252 millions which had been established by the Treasury outside the budget in 1924-1925 from seigniorage on the coinage. Although the remaining deficit was covered partially by long-term loans amounting to 553 million reichsmarks (\$138,250,000) during those three years, the final accounts for 1928-1929 still showed an uncovered net deficit of 859 million reichsmarks (\$214,750,000). This deficit of course put a great burden on the financial year 1929-1930 and as expenditures again exceeded revenues from all sources, the financial position of the Treasury became further aggravated. Mr. Gilbert states that although the final accounts for 1929-1930 are not yet available, it appears that the current deficit will amount to between 600 and 650 millions, "even after taking into account about 600 millions of savings realized by this [1929-1930] budget from the adoption of the

Young plan. Of this indicated deficit about 340 millions have been covered by loans issued during the course of the year, so that the net deficit carried forward will amount to between 260 and 310 millions, in addition to the cumulative cash deficit of 859 millions from previous years, or between 1,120 and 1,170 millions in all [between \$280,000,000 and \$292,500,000]."<sup>8</sup>

#### SUMMARY OF FINANCIAL DIFFICULTIES

In general, Mr. Gilbert ascribes the German financial difficulties to four major factors:

(1) the failure to recognize the principle that the government must live within its income;

(2) the failure to make reforms which have been recognized by the government itself as fundamental to the sound construction of the budget. Chief among these is the question of the financial relations between the Reich and the various states and communes comprising it.<sup>9</sup> Secondly, there is the question of reform of the unemployment insurance system, which has been further aggravated by the increase in the large numbers of unemployed in the Reich;<sup>10</sup>

(3) the practice of adopting new measures by legislation or decree without adequate consideration of their financial consequences;

(4) the obscurity in which the budget is wrapped, which makes it difficult, if not impossible, for the public and even the Reichstag to act as a "salutary check" on its provisions. The confusion caused by the system of ordinary and extraordinary budgets further befogs the issues.<sup>11</sup>

#### FINANCIAL RELATIONS BETWEEN STATES AND REICH

Before turning back to the financial measures decreed by the Brüning government, and the political factors, it is necessary to explain briefly the two major problems of financial relations between the Reich and the states, and the question of unemployment insurance.

The Reich is composed of 18 states (*Länder*).<sup>12</sup> It is neither a loose federation nor

8. *Ibid.*, p. 97.

9. Cf. below, next section.

10. Cf. p. 256.

11. *Ibid.*, p. 99 *et seq.* Mr. Gilbert gives the comparative budget statements of the Reich and discusses at length the sources of revenue and the expenditures.

12. Nineteen with the Saar territory.

a centralized unitary State (*Einheitsstaat*), but rather a combination of the two. The relations between the Reich and its component parts are as yet not very clearly defined and the problem of "states' rights" remains one of the outstanding difficulties in Germany today. It must be remembered that the German Empire lasted only 47 years, and that the Republic is still a very young State. The eleventh anniversary of the Weimar Constitution was celebrated on August 11, 1930.

#### THE SITUATION UNDER THE EMPIRE

The roots of the problem, therefore, lie deep in the past when "Germany" was merely a geographical term applied to the many petty principalities and kingdoms which in 1871 were united to form the German Empire. Prussia was then, as now, the largest and most important single entity among the "Germanies." It still comprises four-sevenths of the German Reich. Then, as now, Bavaria and the other south German states distrusted Prussia and were jealous of its strength and preponderance.<sup>13</sup>

The religious element, too, influenced these states in their anti-Prussianism, for the Prussian government was strongly Protestant, while south Germany—in particular Bavaria—was and is predominantly Catholic. The attitude of the various political parties in Germany on the question of a federal versus a unified State is based on these same factors. The Catholic Center party and the Bavarian People's party are the two most important advocates of a loose federal State and continue to fight against every attempt to centralize greater authority in Berlin.

The whole question of the financial relationship between the Reich and the states and communes is thus fraught with political difficulties.

13. In Prussia the state government is a coalition of Social Democrats, Catholic Centrists and Democrats, and for purposes of administration has functioned extremely well. This is probably due in part to the fact that the Socialist Prussian Premier, Dr. Otto Braun, is an able and forceful leader. The Prussian budget balances in good order. Despite the fact that Prussian politics are always intruding themselves into Reich politics because the parties not participating in the Prussian government want a share in it, Dr. Braun has to date managed to keep his coalition intact and in power.

#### THE REICH'S POWER OF TAXATION

According to the Constitution, the German Reich has the power of legislation as to taxation and other revenues in so far as they are claimed in whole or in part for its purposes. However, if the Reich lays claim to taxes or other revenues which formerly belonged to the states, due consideration must be given to the protection of the financial needs of the states.<sup>14</sup> This qualification was placed in the Constitution because a fundamental change in the system of taxation was made with the foundation of the Republic and it was felt to be necessary to safeguard the rights of the German states.<sup>15</sup>

In general, the Reich collects income taxes, corporation income taxes, a turnover tax on industry and a property tax as well as many smaller taxes which are not levied by the states and communes. Local taxes vary in the different states. For the most part they include stamp and wine taxes, church and school taxes, and licenses for various businesses, as well as levies on chambers of commerce, etc.<sup>16</sup>

The Reich, therefore, collects the bulk of the German taxes and passes on to the states and communes a large share of the proceeds. These payments constitute the largest item of expenditure in the Reich budget. The problem of the division of the revenues has not yet been definitively settled, although there have been at least four provisional settlements.<sup>16a</sup>

Mr. Gilbert severely criticized the present situation in his reports as Agent General for Reparation Payments. In the final report he says:

14. Weimar Constitution, Article 8; cf. also Article 11 for further limitations on state taxes, McBain and Rogers, *op cit.*, p. 178.

15. Gerhard Anschütz, *Die Verfassung des Deutschen Reichs vom 11 August 1919*, Berlin, Verlag Stütke, 1921, p. 40.

16. Cf. *Report of the Agent General for Reparation Payments*, May 21, 1930, p. 110; *Verfassungsausschuss der Länderkonferenz, Beratungsunterlagen 1928*, published by the Reichsministerium des Innern, Berlin, Reichs und Staatsverlag, 1929, p. 26 *et seq.*

16a. The *Finanzausgleich* adopted by the Reichsrat on April 4, 1930 did not actually become law. A number of resolutions based on it were adopted, however, on April 15. These provided that the revenues accruing from the beer tax should be assigned to the states, while the municipalities were included in the revenue from aerated water taxation and the states excluded from the tax on mineral oils. An emergency order was issued on July 26, considerably raising the municipal beer tax and assigning the revenues from the municipal beverage tax to the municipalities to meet exceptional expenses for unemployment. This emergency order introduced a graded head tax for municipalities which may, however, be levied, alone or in conjunction with the municipal beer tax, only for productive economic purposes in cases where the property tax (land and head taxes) exceeds certain limits. The *Finanzausgleich* is to form a subject of discussion in the coming general financial reform.



"The financial relations between the Reich and the States and communes will not be on a sound basis until the responsibility for raising the money by taxation has been reunited with the responsibility for spending it, and until it is recognized on all sides, as stated by the Finance Ministry of the Reich in the survey accompanying the draft budget of 1929-30, that 'the financial settlement between the Reich and the States and communes is the keystone of public finance. It cannot and must not be allowed to become a question of who is to secure the largest share in the booty; it is a question of organizing and rationalizing the total public expenditure in such a manner that the available revenue will suffice and the requirements be adjusted to Germany's situation.'"<sup>17</sup>

The states and communes prepare their own budgets which among other things take care of administration, public works and part of the social insurance costs. Especially during the past year the finances of many of the states and communes have been under the pressure of uncovered budgetary deficits.<sup>18</sup> The great numbers of unemployed have added to the difficulties and, according to Mr. Gilbert, the states have fallen into the habit of expecting the Reich to provide more and more money to meet their recurring budgetary deficits. He particularly criticizes this tendency, saying that the states spend the money collected by the Reich without having the responsibility—or odium—for the collection of the taxes. It is this division of responsibility which Mr. Gilbert considers the underlying fault in the whole system of transfers from the Reich to the states and communes.

During recent years the Reich has assumed the former liability of the states and communes in respect of ordinary unemployment relief. At the same time it has undertaken the burden of many new charges arising out of the war. Nevertheless, there has not been any increase in the proportion of the total taxes made available to the Reich in contrast to the states. On the contrary, the percentage of total revenue left the Reich has declined from 43.3 per cent in 1926-1927 to 42.8 per cent in 1928-1929.<sup>19</sup>

## THE PROBLEM OF UNEMPLOYMENT INSURANCE

The problem of caring for Germany's increasing army of unemployed is the second important factor in the financial situation. The unemployment problem in Germany differs somewhat from that in other industrial countries. In England, for example, many men have been thrown out of work because antiquated factories have been unable to compete effectively with the products of mass production in America and elsewhere. In Germany, on the other hand, the very speed with which the Reich has rationalized its industry since the war has thrown thousands out of work. Machines have displaced men who have not yet been able to find a new place in the industrial system. During the past two years the world-wide economic depression has further increased the number of unemployed, latest estimates placing the figure in Germany at roughly 2,757,000.<sup>19a</sup>

There has never been serious opposition to the principle of unemployment insurance in Germany. But the necessity of revising the system of insurance brought about by the growing number of unemployed has been accompanied by a sharp difference of opinion between the Social Democrats on the one hand, and the People's party, representing the industrialists, on the other.

The basis of the German unemployment insurance is the "Employment Exchanges and Unemployment Insurance Act," which was passed by the Reichstag on July 16, 1927, and the amendments to this act of October 12, 1929, December 27, 1929 and April 28, 1930.<sup>20</sup> Under the act, the costs of administering and maintaining the unemployment insurance system are provided through equal, compulsory contributions of employers and workers. The maximum payments were limited at first to three per cent of wages—one and one-half per cent from each side. They were subsequently raised to three and one-half per cent, at first temporarily, and later permanently. They have

17. *Report of the Agent General for Reparation Payments*, May 21, 1930, p. 114.

18. *Ibid.*, p. 179.

19. *Report of the Agent General for Reparation Payments*, May 21, 1930, p. 118.

19a. Figures published on July 31 by the unemployment insurance institute, quoted in *Frankfurter Zeitung*, August 10, 1930.

20. Mollie Ray Carroll, *Unemployment Insurance in Germany*, Washington, The Brookings Institution, 1930, 2nd edition, revised, p. 48 et seq. Dr. Carroll gives in some detail the provisions and workings of the act.

since been raised to four and one-half per cent by the government's financial decrees.<sup>21</sup>

The accumulation of reserve funds is envisaged under the law, but it provides that whenever income from contributions (from employers and workers) plus reserves fail to cover current expenditures, the deficit is to be met through loans from the Reich. In practice, however, these loans appear to have been generally considered as subsidies. The system is administered by the *Reichsanstalt für Arbeitsvermittlung und Arbeitsversicherung* (National Placement and Unemployment Insurance Service, or Institute) which, as the German name implies, has charge of the labor exchanges as well as the unemployment insurance. Under this central bureau are thirteen district labor offices which unite under them 361 local labor offices.<sup>22</sup> The guiding principle of the system is expressed in the act of July 16, 1927 as follows: "Unemployment shall primarily be prevented and combated by placement."<sup>23</sup> The major emphasis is thus laid on placement of unemployed rather than on the payment of "doles" and its aim is preventive in essence.

#### FINANCING UNEMPLOYMENT INSURANCE

The financial aspects of the unemployment insurance system are causing the greatest difficulties at present. Owing to the unexpectedly high level of unemployment in the Reich during the past two years, the demands made upon the unemployment institute have been extremely heavy. The Reich has therefore been called upon to make large advances in order to meet the rising deficit and these advances have been one of the principal factors in the German budgetary difficulties. Theoretically the unemployment institute must reimburse the Reich for these loans, but it has not had sufficient funds to do so. In 1928-1929 these advances amounted to 260 million reichsmarks (\$5,200,000) and in 1929-1930 they rose to 440 millions, or about 290 millions

more than were provided in the Reich budget as originally voted.<sup>24</sup> Thus the unemployment insurance system is not on a self-supporting basis as yet and at the opening of the financial year 1930-1931 it was indebted to the Reich for a total sum of approximately 700 million reichsmarks. Furthermore, there is provision for emergency unemployment relief measures which have had to be granted regularly since 1926. And, in addition to emergency allowances, the national treasury paid 105 million marks (\$25,000,000) during 1928-1929 for special seasonal relief during the extraordinarily cold winter. This sum comprised four-fifths of the expenditure for this form of relief, the other fifth coming from the unemployment institute. In addition, the Reich spent 137 million marks (\$34,000,000) for public works during the first eighteen months of 1927-1928 and this sum was matched by the states.<sup>25</sup>

This situation resulted in a re-examination of the entire unemployment insurance system with a view to revising it so as to give the necessary protection to the Reich finances. The report of the investigating committee estimated the annual deficit of the institute at about 280 million reichsmarks and proposed measures which would reduce the annual expenditure by about 160 millions. It further suggested that the balance should be provided by increasing the contributions paid by employers and workers from 3 to 3½ per cent for a limited period.<sup>26</sup>

The Müller government submitted draft legislation to the Reichstag in August 1929 which embodied many of these proposals. It met with such immediate and intense opposition that it almost caused the overthrow of the government. The fundamental difference in viewpoint between the Social Democrats and the bourgeois parties, particularly the People's party, was here plainly apparent. The former criticized the proposed measures as not giving sufficient protection to the workers; the latter assailed it as increasing unduly the already heavy burden on industry. As finally passed by the Reichs-

21. Cf. p. 258.

22. Carroll, cited, p. 60. The boundaries of the states do not coincide with the districts; there are in fact 18 states in the Reich but only 13 district labor offices. This might perhaps be considered as a move towards centralization of general administration in the Reich.

23. Title of the act and section 131 thereof; cf. Carroll, cited, p. 65 *et seq.*

24. *Report of the Agent General for Reparation Payments*, May 21, 1930, p. 134 *et seq.*

25. Cf. Carroll, cited, p. 89 and *passim*.

26. *Report of the Agent General for Reparation Payments*, May 21, 1930, p. 136; Carroll, cited, p. 85 *et seq.* for more detailed discussion from the social viewpoint.

tag on October 12, 1929, it left the institute with an annual deficit of about 180 million reichsmarks.

The situation became still more acute, however, in the succeeding months, and the government finally obtained the passage of a law on December 27, 1929 raising the contributions payable by employers and workers from 3 to 3½ per cent. This was to be effective only from January 1 to June 30, 1930. By a further measure passed April 28, 1930 the increased rate remains effective until further legislative action is taken. However, owing in part to the delay in adopting the proposals made by the government in August 1929 and partly to the fact that unemployment had reached levels higher than anticipated, the official estimates of the advances which would be required from the Reich by the unemployment institute were too low and the situation remained acute.

#### THE FINANCIAL DECREES

In the financial decrees which were issued by the Brüning government on July 27 an attempt was made to cover the budgetary deficit by reduction of expenditures, new taxation and reform of the unemployment insurance system.

These differ only in minor details from the program of Finance Minister Dietrich which the Reichstag refused to ratify. The changes are designed to lessen slightly the burden placed on small incomes, though the main burden still falls on consumers.<sup>28</sup> Dr. Dietrich places the deficit which must be covered at roughly 760 million reichsmarks. This sum is to be raised as follows:

269 millions through raising the unemployment insurance dues and by internal reforms in the system;

274 millions through special taxes (on salaries

of officials, on royalties, raising the general income tax and a special tax on unmarried individuals);

48 millions through a tobacco tax;

169 millions through saving in the budget (35 millions in 1929 and 134 millions in 1930).

Total 760 millions (\$190,000,000).<sup>29</sup>

In explaining these measures, Dr. Dietrich declared that the principal burden on the budget has been caused by the industrial crisis and attendant unemployment. The latter accounts for roughly 600 million reichsmarks of the deficit. It has therefore been found necessary to raise the contributions of employers and workers from 3½ to 4½ per cent. Furthermore, he stresses the importance of measures to create employment. Should the 685 million reichsmarks which are appropriated toward unemployment relief of all sorts in the 1930 Reich budget prove insufficient, the Reich will pay only half the deficit and the other half will have to be met by raising the contributions from employers and workers again. This provision is designated as an emergency measure to aid in the industrial crisis.<sup>29a</sup>

The decrees provide also for relief of the communes, for aid to agriculture in the eastern provinces, and for extension of the government's powers in dealing with cartel agreements.<sup>30</sup>

The financial decrees must eventually be ratified by the Reichstag, and in order to pass the necessary legislation, the government formed after the elections must have a workable majority in Parliament. As shown above, that desideratum has been difficult in the past because of the close balance between the parties of the Right and Left and because of the extreme difficulty of achieving cooperation between the parties which must make up the inevitable coalition government.

#### POLITICAL REALIGNMENTS

There have been several changes in the political alignment during the past few months which have an important bearing on the outcome of the elections. Chief among

these is the split in the Nationalist party, until recently the second largest *Fraktion* in the Reichstag.

29a. For summary of other features of unemployment relief program, cf. *The Economist* (London), August 9, 1930, p. 278-79.

30. *Ibid.*, July 27, 1930 for full description and explanation of the decrees by Finance Minister Dietrich.

28. *Manchester Guardian Weekly*, August 1, 1930, p. 91.

29. *Frankfurter Zeitung*, July 29, 1930.

### THE NATION- ALIST SPLIT

In 1928, Dr. Alfred Hugenberg, ex-director of Krupps, owner of an important string of newspapers and of the famous UFA motion picture concern, became the leader of the German National People's party. Unconciliatory and uncompromising in his dogmatic "nationalism," Dr. Hugenberg is more than any other person responsible for the split which has occurred in the party within the past year.

The plebiscite on the Young plan which was initiated and carried through by the Nationalists and the Fascists caused the first important break in the ranks of the Hugenberg party. After securing just enough signatures to a petition demanding that the Reichstag take action, Dr. Hugenberg introduced his so-called "Liberty Law" which provided for repudiation of the peace treaties and the Young plan and for the impeachment for high treason of Ministers who signed any reparation agreements.

The Liberty Law bill was defeated in the Reichstag on November 30, 1929, by the decisive vote of 312 to 80. It was then voted on at a popular referendum on December 22, and received only 6,000,000 votes out of a possible 41,000,000—only 14 per cent of the electorate.<sup>31</sup>

In spite of strict party discipline, 14 Nationalists refrained from voting for the "Liberty Law" in the Reichstag, including such important members of the party as Captain Treviranus, Dr. Schiele, Professor Hoetzsch and Herr von Keudall. This seems to have been the first definite revolt against Hugenberg and his extremist views. During the winter, a number of members of the Nationalist Reichstag *Fraktion* seceded from the party and rumors were rife of a growing *fronde* against Dr. Hugenberg. Finally, after the fall of the Müller government, an attempt was made by the new Chancellor, Dr. Brüning, to capitalize the disunion in the Nationalist ranks. Backed by President von Hindenburg, Dr. Brüning included in his new Cabinet two of the anti-Hugenberg Nationalists, Dr. Schiele and Captain Trevi-

ranus. The latter had definitely broken with Hugenberg and formed a small group called the People's Conservatives (*Volkskonservativen*) or Tory Democrats. Dr. Schiele resigned from the Nationalist party when he joined the Brüning Cabinet in order not to involve the party as such in any way. The price of Treviranus' and Schiele's cooperation was the government's promise to rush through the Reichstag measures for the relief of agriculture, especially in the eastern provinces. When it came to the first test vote in the Reichstag, at least the temporary success of Dr. Brüning's tactics was apparent, for the bulk of the Nationalists voted for the government. Hugenberg himself remained firm until the very last hour before the vote was taken, in demanding that the Nationalist *Fraktion* vote against the government. Finally, however, he capitulated when it became evident that a large part of the *Fraktion* would bolt his leadership.

During the three months and a half between the formation of the Brüning government and the dissolution of the Reichstag, the Nationalist split and the growing distrust of Hugenberg's leadership in the party became more and more apparent. In a vote on the government tax and agricultural tariff proposals which took place on April 12, 31 Nationalists voted for the government in open defiance of Hugenberg and the measure passed with a margin of only 11 votes. And finally, during the crisis which resulted in the adverse vote on further tax measures on July 16, the Nationalists voted against the government. The Nationalists apparently wished to forestall once for all any last minute attempt which the Brüning government might have contemplated to conciliate the Social Democrats and, by making concessions to them, win their support.<sup>32</sup> On July 18, after the government had announced that it would put the tax measures into effect by decree under Article 48 of the Constitution, there were still not enough revolting Nationalists to save the Ministry. A majority of the party voted for the motion, i.e., against the government.<sup>33</sup>

31. The approval of 51% of the registered voters was necessary to pass it.

32. Cf. *Frankfurter Zeitung*, July 15, 1930. A Berlin despatch to this paper states: "The Nationalists by their tactics wished to force a final break between the Brüning Cabinet and the Social Democrats."

33. *Frankfurter Zeitung*, July 19, 1930.



Hugenberg's decision to vote against the government—he had attempted to sell his support for concessions which the Chancellor could not accept—caused a final and definitive split in the Nationalist party. Count Westarp and some 25 others bolted the *Fraktion* meeting at which the decision was made. Since the dissolution of the Reichstag, negotiations have begun which have apparently led to a union—at least for the election—of the Westarp and Schiele-Treviranus groups, together with several small peasant parties, in the People's Conservative party.

The break with Hugenberg was due primarily to his almost fanatical views which finally proved too much for the more moderate members of the Nationalist party. These include many of the ablest leaders in the party. Hugenberg's strength comes mainly from the fact that because of his great personal wealth he is able largely himself to support the party's war chest. Furthermore, his many newspapers and moving picture houses give him an important means of spreading his views.<sup>34</sup> The result of the plebiscite on the Young plan last December, however, was a significant indication of his waning power. The final split in a once very large party further underlines this fact.

#### THE NATIONALIST SOCIALISTS

Many well-informed observers have expressed the opinion that the German elections will result in a relatively large strengthening of the extreme Right or Fascist groups, led by Hitler, and possibly of the Communists on the extreme Left as well. Coupled with the disgust felt by many people at the inability of the Reichstag to carry out a constructive program, there is also growing impatience with the large numbers of German officials. These are regarded by many as expensive parasites who do little or nothing to earn their salaries.<sup>35</sup> This growing dissatisfaction, it is felt, will also

tend to strengthen the Fascists, to whom parliamentary government is anathema.

Besides these factors, there is the serious agricultural depression and the possibility that many disgruntled farmers and their families will vote Fascist.

The Fascists themselves won a considerable victory in the Saxon provincial elections on June 22, 1930 and they are strong in Bavaria and in Thuringia, where they have, curiously enough, joined the state government. The Saxon election is regarded by many observers as a significant political weather-vane.

On the other hand, a serious split appears to have occurred in the Hitler group. One section, more extremist than the other, regards participation in the Thuringian government and attempted cooperation with other parties in forming a government in Saxony as inconsistent with the party's ideals. Thus, in a sense, there seems to have been a split between Right and Left even among the extremists.

There is a further possibility, rumored in the press, that Hitler, who is of the "Left" group of the National Socialists, may effect an election truce with Hugenberg and the latter's rump party, a move which would of course strengthen the extremists. It is possible, however, that the very fear of such a development would add to the efforts now visible among some of the moderate parties, to effect some sort of cooperation for the election in order to make Germany "safe for democracy."

#### THE SWING TO THE RIGHT

During the past weeks negotiations have been in progress between leaders of the People's party and of the new Constitutional party looking toward a sort of truce which would make it easier for all the moderate parties to present a united front at the elections. The strongest motivation for such a truce is the fear of the extremists. But there are several factors which, up to the present at least, appear to separate the so-called moderates. One of these is the growing conservatism of the industrialists of the People's party, which has emphasized its distrust of

34. Cf. O. G. Villard, "Hugenberg and the German Dailies," in *The Nation* (New York), August 20, 1930.

35. One of the reasons for the large numbers of administrative officials in Germany is that immediately after the war, when faced with the problem of demobilizing at once an army of some 10,000,000 men, many positions were created in order to give jobs to ex-soldiers. It was feared that had they been allowed to go their way indefinitely without work, they would have become a serious menace to the security of the struggling new German Republic.

the powerful Social Democrats. This has led the People's party to work for consolidation of the purely bourgeois groups in order to counteract Socialist influence. Probably the death of Dr. Stresemann has intensified this trend. As leader of the People's party, he was able to keep that party united and to work—primarily in foreign affairs, to be sure—with the Socialists. After his death, the leadership of the People's party passed to Herr Scholz who is generally characterized as a member of the Right wing of the party. This fact may partly account for its increasing conservatism.

The Catholic Center party, as has been pointed out, must pursue a middle of the road policy in order to hold together the divergent interests which it represents.<sup>36</sup> Its present leader, Chancellor Brüning, is naturally conservative. Thus the present trend in the Center party is also to the Right. On the other hand, the influence of the Catholic Trade Unions may to a certain extent counterbalance this trend, for there is always the

chance that the Catholic workers, if they feel their interests slighted, will vote for the Social Democrats.

The new groups—the Tory Democrats and the Constitutional party—must also be considered, constituting as they do the Right and Left wings of the bourgeois parties. There are indications that some of the younger members of the People's party, disgruntled with the growing conservatism and lack of idealism of the old party, may go over to the Constitutional party. The division on the Right between the Tory Democrats and the People's party is not as sharp as was the line between the old Nationalists and the People's party. The latter, therefore, seems to be in some danger of falling between two stools.<sup>37</sup>

The Social Democrats probably have most to fear on the Left. The unemployment situation, which became much more serious while they were in office, may add dissatisfied workers to the Communist ranks.

### THE IMMEDIATE ISSUE

These factors of party politics are important to an understanding of the significance of the elections. But the chief question to be answered in September is whether the so-called moderate parties will be able to work together to present a sufficiently united front against the encroachments of the extremists on the Right and the Left. Even if these anti-parliamentary groups gain considerable strength in the elections, they will still be unable to get control of the government if the moderate parties work together. The pressure of foreign problems in the past proved an effective agency for

united efforts of the moderates; it remains to be seen whether the pressure of extremism at home will have the same effect in order virtually to save the parliamentary system and make possible the election of a Reichstag capable of legislating.

"Are we [the German people] merely a multitude of interests or the people of a nation"?<sup>38</sup> said Dr. Dietrich, the Minister of Finance, to the Reichstag just before the dissolution. This is the question which the German people must answer on September 14.

36. Cf. p. 249.

37. Cf. *Manchester Guardian Weekly*, August 8, 1930, p. 110.

38. "*Ob wir ein Haufen von Interessenten oder ein Staatsvolk sind.*"